

RELIEF FROM FEDERAL REQUIREMENTS AND SANCTIONS

Numerous federal requirements create significant administrative burdens and expenditures for California that cannot be justified, especially given the severe condition of the State's General Fund. Additionally, the State continues to be subject to increasing federal sanctions that restrict the State's ability to reinvest in critical programs to benefit both State and federal taxpayers. The State continues to seek increased federal flexibility and recognition of the extended timeframes needed to implement statewide automation projects or achieve federal performance measures in a state with the size and complexity of California.

As a result of actions at the federal level, the State has incurred increased administrative costs and penalties, and continues to face the threat of significant additional penalties and sanctions. The examples below detail \$560 million in additional costs that California has incurred to date, and an additional \$670 million in potential costs, penalties, and sanctions facing the State in the near term. In the current dire fiscal environment, the State must seek relief from these overly burdensome federal requirements and sanctions.

Department of Mental Health

Managed Care Federal Regulations

The Department of Mental Health (DMH) will incur an \$8.2 million (\$4.1 million General Fund) cost in 2004-05 associated with ensuring that the Medi-Cal Specialty Mental Health Services Consolidation program complies with new federal regulations governing managed care programs. The DMH is required to provide informational materials and provider lists to the estimated 350,000 managed care clients, and informational materials and a toll-free number to request a provider directory to an estimated 3.2 million Medi-Cal beneficiaries. Although the current requirements reflect a negotiated compromise with the federal Centers for Medicare and Medicaid Services, the Administration may pursue additional modifications to relieve California of the requirement to provide informational materials to all beneficiaries.



Department of Child Support Services

Alternative Federal Penalty Relief

As a result of California's delay in implementing a single, statewide-automated child support system, the federal government has levied significant federal penalties against the State. As of June 30, 2003, the State has paid cumulative penalties of \$562 million. The penalty amount is 30 percent of the prior federal fiscal year expenditures on the Child Support Program. As expenditures for the development of a statewide-automated child support system increase, the penalty will also increase. The federal penalty is estimated to be \$195 million in 2003-04 and is estimated to increase to \$220 million in 2004-05 due to increased expenditures for the development of a statewide-automated child support system.

In July 2003, the State procured a vendor to develop and implement one component of a statewide-automated child support system and expects to procure a vendor for the second component of the system by January 2005. As the State is making a good faith effort to implement a single, statewide-child support automation system, the State should not be penalized for expenditures associated with its attempt to comply with this federal requirement.

Department of Social Services

Food Stamp Error Rate Sanction

California was sanctioned by the federal government for federal fiscal years 2001 and 2002, in the amount of \$176.9 million,

because county error rates for Food Stamp Program eligibility and benefit determination were above the national average. Based on current State regulations, counties must fund 90 percent of this sanction while the State is responsible for the remaining 10 percent.

As a result of actions taken by the State, including the implementation of the Prospective Budgeting/Quarterly Reporting system, and providing additional training at the local level, the Food Stamp error rate has been reduced by more than half, from 17.37 percent in federal fiscal year 2001 to 6.61 percent in federal fiscal year 2003. This reduction in the error rate should significantly reduce the likelihood of additional penalties in the future. Further, due to the recently enacted federal Food Stamp Reauthorization Act of 2002, it is anticipated that future penalties, if any, would be significantly lower than those levied in federal fiscal years 2001 and 2002. Lastly, the Department of Social Services (DSS) is currently appealing the existing federal sanctions to either reduce or eliminate these penalties, and therefore California's payments have been delayed until a final decision is reached on the sanction.

Child Welfare Services/Case Management System

The Child Welfare Services/Case Management System (CWS/CMS) is a State and federally required comprehensive statewide database, case management tool, and reporting system for the CWS program. Because the State was making efforts to add functionality to make the CWS/CMS compliant with all of the federal child welfare system requirements, the federal government was providing enhanced federal funding. However, as currently operating, the CWS/CMS is not compliant with 14 out of 87 of these requirements.

In June 2003, the federal government indicated that California would no longer receive enhanced funding for the system unless the State submitted and completed a plan for obtaining full compliance. The General Fund impact of the loss of enhanced funding for the CWS/CMS would be a cost of \$18.2 million in 2003-04 and \$17.4 million in 2004-05 and subsequent years. In September 2003, the DSS was further notified that the federal government did not approve the annual funding request for the CWS/CMS. This recent decision to deny all funding may result in additional annual costs between \$54 million and \$65 million beginning in 2003-04. The DSS is currently preparing a plan to obtain full compliance and negotiating with the federal government to ensure continued funding for the system and to reduce any potential federal penalties.

Block Grant funds to implement the State's Improvement Plan. Given that no states have passed all of the federal outcome measures, the Administration plans to continue its dialog with the federal government to ensure that performance expectations are realistic and achievable. The federal government has agreed to meet with the State in January 2004 to consider renegotiating the terms of the approved plan due to the State's fiscal constraints and limited resources.

Child Welfare Services Program Improvement Plan

The State failed a total of 12 out of 14 outcome measures in a federal review of California's Child Welfare Services program conducted last year. Pursuant to federal requirements, the DSS submitted a Program Improvement Plan to the federal government in response to these findings of noncompliance. The State's plan was approved on June 24, 2003. If the State fails to achieve federal program improvement goals, it will have to pay \$18.1 million General Fund to the federal government in the first year of non-compliance. Federal penalties could increase to \$49 million in the second year and \$73.9 million in the third year, if the State does not meet federal program improvement targets.

The Governor's Budget includes \$5.2 million General Fund and \$18 million in federal Temporary Assistance for Needy Families